HART SCHAFFNER & MARX

Thirty-first Annual Report
November 30, 1941

HART SCHAFFNER & MARX

CHICAGO NEW YORK

New York, January 26, 1942

To the Stockholders of
Hart Schaffner & Marx

The accompanying balance sheet and income statement reflecting operations of your company for the fiscal year ending November 30, 1941, show a combined net income for the parent company and its subsidiaries after all taxes of $831,761.30. For the previous year the comparable figure was $437,776.05. The profit of the parent company amounted to $381,070.76 as compared with $160,732.27 for the previous year. Profits of subsidiary companies are reflected in the adjustment of the reserve against investments in subsidiaries amounting to $450,690.54. The corresponding adjustment last year was $277,043.78. The company's portion of the profits of subsidiaries for the current year was actually $557,088.43.

It will be noted that inventories are substantially higher than they were a year ago. A large portion of this increase is represented by goods on hand and in process of manufacture against an increased volume of spring bookings. Other inventories are also higher due to expanding volume and the necessity for making earlier commitments. The management has considered it prudent to set up a special reserve of $100,000 against possible changes in inventory values.

The increase in accounts receivable reflects larger shipments made during the fall season. This together with the increase in inventories accounts for the larger indebtedness of the company at the end of the fiscal year. It is unlikely that any large reduction in indebtedness will be accomplished while the present volume of business is being maintained.

Although earnings for the year show a substantial improvement, it seemed advisable in view of the continued expansion of business to adopt a conservative policy with respect to dividends. The directors felt justified, however, in declaring a dividend of $1.50 per share on the 141,818 shares outstanding as at November 26, 1941. The dividend, which appears as a liability on the statement, was paid on December 5, 1941.

It is inevitable that the company will be affected by the uncertainties and difficulties which all civilian economy must face while the nation is engaged in a great war. A recent ruling of the Office of Production Management limits the amount of new wool available to the civilian portion of the industry. It is not possible at this date to determine the full effects of that ruling. There can be little doubt that the industry will be seriously affected by it and that many problems will present themselves.

Without minimizing the uncertainties of business in these times, it seems appropriate to consider certain elements of stability. The distribution of the company's product is in the hands of a carefully selected group of retail establishments, well distributed over the country. The company has always dealt with assured and responsible sources of supply. The employees of the company have shown a degree of loyalty and cooperation of which the directors and the management are keenly conscious. There can be no assurance as to profits in these times but there can be confidence that the company will maintain its relative position in the industry.

On the following pages, accompanied by the report of the auditors, Messrs. Price, Waterhouse & Company, are the balance sheet of the company as at November 30, 1941, and the statement of profit and loss and earned surplus for the year just ended.

MARK W. CRESAP
Chairman of the Board

MEYER KESTNBAUM
President

HART SCHAFF

A New York

BALANCE SHEET—N

Assets

Current Assets		
Cash	$ 506,042.65	
Notes and accounts receivable (less reserves) and receivables due from subsidiaries covered by net quick assets	5,300,489.93	
Inventories of materials and finished and partly finished merchandise on hand and in transit, at cost or market whichever is lower for current season's merchandise and estimated realizable values for past seasons' merchandise (less reserve)	3,874,859.75	
Sundry accounts—including $13,651.23 due by employees	48,362.83	$ 9,729,755.16
Investments In and Non-Current Advances to Subsidiaries and Others		
(Less reserves), of which $2,249,273.70 is represented by net quick assets of such subsidiaries		2,730,717.29
Company's Capital Stock		
Held in Treasury		
4,930 shares at par	$98,600.00	
3,252 shares at cost	96,052.65	194,652.65
Shop Equipment and Fixtures, and Office Furniture		
At cost	$1,266,520.01	
Less—Depreciation reserve	988,362.80	278,157.21
Deferred Charges		
Prepaid factory rentals, prepaid insurance, supplies, etc.		149,480.20
Goodwill, Trade Names and Trade Marks		
At record value		1.00
		$13,082,763.51

FNER & MARX

Corporation

NOVEMBER 30, 1941

Liabilities

Current Liabilities

Notes payable to banks	$2,750,000.00	
Accounts payable	227,749.44	
Dividends, payable 12/5/41	212,727.00	
Liability for goods in transit	202,159.49	
Accrued salaries and wages	245,643.87	
Accrued Federal, state and local taxes (less cash of $35,173.15 deposited in escrow to cover payment of real estate taxes)	254,812.13	$ 3,893,091.93

Capital Stock

Common—Authorized and issued—150,000 shares—par value $20.00 each	3,000,000.00

Capital Surplus

Capital Surplus	1,803,712.61

Earned Surplus

Per accompanying statement	4,385,958.97
	$13,082,763.51

HART SCHAFFNER & MARX

A New York Corporation

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 1941

Profit of parent company for the year	
After deducting all expenses, provision for Federal income taxes and charge for variation in inter-company profit in inventories of certain subsidiaries and after appropriating out of earnings reserves of \$100,000.00 against inventory valuations	\$ 381,070.76
Adjustment of reserves	
Against investments in subsidiaries in respect of the increase in net worth of these companies for the year and dividends received from a subsidiary	450,690.54
(*Note:* The parent company's portion of net profits of all its subsidiaries was \$557,088.43)	
Total, carried to earned surplus	\$ 831,761.30
Earned surplus at November 30, 1940	3,766,924.67
	\$4,598,685.97
Less—Dividends of \$1.50 per share payable December 5, 1941	212,727.00
Earned surplus at November 30, 1941	\$4,385,958.97

REPORT OF ACCOUNTANTS

To the Board of Directors of
Hart Schaffner & Marx

We have examined the balance sheet of Hart Schaffner & Marx as of November 30, 1941, and the statement of profit and loss and earned surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included all procedures which we considered necessary.

The financial statements of six of the more important subsidiaries were examined by us as at July 31, 1941 and the books and records of all but one of the subsidiaries were audited during the year by internal auditors employed by the company. We have been furnished with financial statements of all of the subsidiaries as at November 30, 1941, certified by officers thereof, supported by certificates covering bank balances, detailed lists of receivables and particulars of inventories, and these statements and other supporting data were subjected to our review. The financial statements of the subsidiary, whose books and records were not examined during the year by the internal auditors, were examined by us as at January 31, 1941. The investments in and non-current advances to subsidiaries are stated in the balance sheet at cost of the investments, plus amount of advances, less reserves provided in respect of reductions in the net worth of certain subsidiaries having losses from the date of acquisition of such investments to November 30, 1941. The portion of the indebtedness of subsidiaries to their parent company which is represented by net quick assets of such subsidiaries, is included in receivables under current assets.

In our opinion, the accompanying balance sheet and related statement of profit and loss and earned surplus present fairly the position of Hart Schaffner & Marx at November 30, 1941 and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

CHICAGO,
January 17, 1942.